LASERS
Louisiana State Employees' Retirement System

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Response to Latest Proposal to "Re-Engineer Public Retirement

LASERS members have inquired about a recently publicized report that includes a goal to "Re-Engineer Public Retirement and Health Care Benefits for Long-Term Stability."

The report, by Blueprint Louisiana, addresses a variety of points which cross various public retirement systems. It is premised on the theory that the cost of public pensions to taxpayers continues to grow and diverts dollars from other state priorities. In response to those points as they specifically impact LASERS, the following information is provided.

Payments for employer contributions to LASERS currently represent less than three percent of the state's operating budget. While that amount is expected to rise incrementally until 2029, due to the debt payment schedule, it will then decline significantly.

Blueprint Recommendation #1: The State should reform, or end, the current defined benefit plan for new employees.

LASERS Responds: Why? The defined benefit (DB) plan offered by LASERS presents a modest retirement benefit offering retirement security at a reasonable cost. Moving to a cash-balance plan or a defined contribution plan will not change the state's requirement to pay the money owed to the system. Eliminating the DB plan does nothing to assist with the debt; and closing the plan to new hires simply shrinks the dollar amount of payroll upon which the debt payment is calculated, raising the percentage of the employer contribution on that shrinking payroll.

As the Blueprint report recognizes, the average benefit of retired rank-and-file employees is around $21,000 a year. Funding for that benefit consists primarily of the LASERS investment returns and employee contributions. The cost to the state of the benefit that is being earned is less than seven percent of payroll. LASERS members do not participate in Social Security; if they did, the state would pay 6.2 percent of payroll, 1.45 percent for Medicare, as well as an additional amount toward the new retirement plan, be it cash-balance or defined contribution.

The fact of the matter is the state's employer share of the cost of the benefit being earned today is modest and affordable.

The financial burden the state bears is due to the debt payment. The failure of the state to make its required employer contribution over many decades in the past, coupled with the statutorily created increasing payment schedule, constitutes the majority of the debt. The retirement system's investment performance also impacts the debt. During the 2008 Recession investment losses had a negative impact, but from 1988 through 2008, our investment gains had a positive impact and reduced the size of the debt.

We have seen that over time, the investment gains and losses of the system tend to zero out in terms of their impact on the size of the debt.

Keep in mind over $800 million in retirement benefits are paid annually by LASERS to its retirees, which allows those funds to be spent in local communities. This is substantial economic development for Louisiana, especially since more than 90 percent of LASERS retirees stay in the state and spend their money here.

Blueprint Recommendation #2: Louisiana should immediately offer a defined contributions option for public employees, including state workers and teachers.

LASERS Responds: A defined contribution plan (the ORP, or Optional Retirement Plan) was once offered to certain unclassified employees eligible to participate in LASERS. It was designed to accommodate the types of positions that have been recognized as short term. LASERS did not oppose the continuation of that plan. However, it must be recognized that offering this type of plan does not affect the debt payment. Depending upon how the plan is structured, it could have a negative financial impact on the system.

Blueprint Recommendation #3: Review and revise the benefits offered in the four state retirement systems, including the contribution rate, retirement age, and other components.

LASERS Responds: This recommendation has already been accomplished. LASERS has supported changes which improve the plan while protecting the contractual and constitutional rights of existing members of the system. Changes have included an increase in employee contribution rates, a reduction in the retirement eligibility options, a requirement that the affected members work longer to earn a benefit, and a change in the way the member's final average compensation is computed.

And, a significant reform measure, Constitutional Amendment No. 2, is on the October 22, 2011 ballot, requiring a set percentage of state surplus funds to be applied to system debt.

Blueprint Recommendation #4: Require retirement systems to lower the percentage of anticipated investment returns to a more realistic figure.

LASERS Responds: This recommendation offers an inconsistent solution. The 8.25 percent actuarial return that we are currently expected to earn is representative of the historical investment returns of LASERS. When we look back 25 years, before the Great Recession, LASERS compounded average actuarial return was 8.41 percent through 2009. In the past two years our market returns have been 16.1 percent and 24.3 percent.

The suggested change would certainly make it easier for the system to meet and exceed expectations, but it would also increase debt projections and significantly raise the percent of payroll that the state would be required to make to the system. If the goal is to free up dollars for other state priorities, lowering the expected investment actuarial return will have the opposite effect. That being said, any change in the expected return rate must be approved by the Public Employees Retirement Systems Actuarial Committee.

Blueprint Recommendation #5: Begin to consolidate the management and governance of retirement systems.

LASERS Responds: Again, why? When considering the fact that LASERS investments have for years consistently placed in the top quartile nationally among our peers, it is clear that what we are doing is working. And as noted by the report, the legislature passed a study resolution to examine the impact of combining administrative and investment management services. Until that study is undertaken, it is premature to assume that any savings will result. As the report acknowledges, mergers are complicated. As a result of that inherent complexity, it is important to gather the facts before jumping to an extreme conclusion.

Blueprint Recommendation #6: Change the membership of retirement boards so that beneficiaries are not the sole decision-makers and overseers of the system.

LASERS Responds: The LASERS Board of Trustees consists of 12 members, three of whom are ex officio members and not necessarily members of the system: the State Treasurer, the Chair of the House Retirement Committee, and the Chair of the Senate Retirement Committee. Of the other nine members, six are elected by active members of LASERS and three are elected by retirees. Before changing the membership of the board, it is important to establish a need for such a change. In comparing the performance of LASERS to peer retirement systems, it must be noted that with a 24.3 percent return for its last fiscal year, LASERS ranked in the top seven percent of all public pension plans with market values greater than $1 billion in the Trust Universe Comparison Service for the one- year period ending June 30, 2011. Is this the type of performance that signals the need for change?

Blueprint Recommendation #7: Prohibit convicted felons from receiving the state share of their pensions.

LASERS Responds: A 2010 legislative enactment allows pensions to be garnished to pay fines, penalties, or expenses of incarceration for a felony conviction related to the public official's office. This legislation came as a result of much testimony and debate, wherein it was shown that the recommendation noted above would violate both state and federal constitutional protections. It could also have a tremendous negative financial impact on innocent spouses and children.